



ANNUAL BUDGET OF
LIM 345
MUNICIPALITY

2017/18
MEDIUM TERM REVENUE AND EXPENDITURE
FORECASTS

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1. INTRODUCTION

Section 16(1) of the MFMA state that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of the financial year

In order for a municipality to comply with the above statement indicated, the council of the municipality must at least 30 days before the start of the budget year consider approval of the annual budget.

Section 17 of the MFMA, further states that the annual budget of a municipality must be scheduled in the prescribed formats as indicated by National Treasury

Section 18 of the MFMA, further states that the municipality may fund the expenditures from:

- Realistically anticipated revenues to be collected
- Cash-backed accumulated funds from previous years' surpluses not committed for other purpose
- Borrowed funds, but only for the capital budget

2. MAYOR'S REPORT

The 2017/18 Medium Term Revenue and Expenditure Framework submitted to Council today is the collective efforts of the all role players and is in line with the requirements of the Municipal Finance Management Act, 2003 and is the financial assertion of our political mandate.

The 2017/18 Medium Term Revenue and Expenditure Framework budget has taken into account the National, Provincial, district and Municipal priorities. The budget considered our strategic objectives as reflected in the IDP.

Since the tabling of the 2017/18 budget in March 2017, the Municipality embarked on a road show/ public participation engaging stakeholders on the tabled budget. The last session was held on the 22 May 2017. The inputs from the stakeholders were consolidated and considered in the final budget.

The tabled budget was further discussed with Provincial Treasury, Office of the Premier and coghsta during budget benchmark exercise and the inputs were also considered in the final budget.

The municipality was able to record progress on the provision of basic services in first year of its existence; however, we still need joint efforts and work hard to continue providing services to our community. In the current year (our first year of existence) the Municipality is operates with insufficient human capacity, however, the municipality is at verge of finalising the recruitment process to ensure that the departments are capacitated render services effectively.

The municipality will always prosper to close the gap between the expectations of our citizens and the ability of government to deliver service

The budget has been prepared in accordance with the MFMA, Municipal reporting budget regulation, MFMA Circulars and related legislations and regulations

The budget was drafted with full consideration of the provisions contained in National Treasury MFMA Circular's which encourages municipalities to have cost reflective and affordable tariffs. Furthermore, the budget took into account cost containment measures.

Total Revenue

| Description | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|--------------------------|---|---------------------------|---------------------------|
| | Budget Year 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| R thousand | | | |
| <i>Operating Revenue</i> | 344 636 | 364 665 | 381 044 |
| <i>Capital revenue</i> | 106 615 | 95 345 | 106 478 |
| | 451 251 | 460 010 | 487 522 |

The total projected revenue for 2017/18 is R 451 million which comprise of operating revenue of R344 million and capital revenue of R106 million. The total revenue reflects increase of 23% from 2016/17 adjustment budget.

The capital revenue budget is channelled to address service delivery backlog, government's service delivery priorities and the municipality further made a provision to supplement funding of capital projects and procurement of assets through internally generated funds.

The detailed breakdown of the operating revenue and capital revenue, operating expenditure and capital expenditure is provided in the executive summary of the budget and further detailed in table A4 and table A5 of annexure A1.

Grants and equitable share

| Description | 2017/18 | 2018/19 | 2019/20 |
|---|---------|---------|---------|
| Equitable share | 304 695 | 325 128 | 339 170 |
| Financial management Grant | 2 345 | 2 345 | 2 345 |
| EPWP | 1 000 | | |
| Municipal Demarcation Transitional Grant | 6 847 | | |
| Municipal Infrastructure Grant | 83 480 | 88 345 | 93 478 |
| Integrated National Electrification Programme | 18 000 | 7 000 | 13 000 |

The table above illustrate the grants and equitable share allocated to LIM 345 Local Municipality and the allocations is in accordance with Division of Revenue Act.

Tariffs

Honourable Speaker, the proposed tariff increase is projected to be 6% in 2017/18, 5.7% in 2018/19 and 5.6% in 2019/20. The envisaged increase was projected in accordance with consumer price inflation and MFMA circular 86. The proposed tariff increase took into cognizance the affordability of tariffs by community and this will allow the municipality to generate sufficient revenue to sustain its operations.

Honorable speaker, in the current year Makhado and Thulamela Municipality is billing and collecting revenue for property rates on behalf of the Lim345 Municipality, however, the municipality has since developed a valuation roll, the rates have been set and the implementation will start from 1 July 2017.

3. COUNCIL RESOLUTION

On the 31 May 2017, the council of Lim345 Local Municipality met at the Boxing GYM – Malamulele and resolved that the 2017/18 MTREF, budget related policies, tariffs and by-laws be adopted as legislated. *(The extract of the minutes is attached on annexure B).*

4. EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains

financially viable and that municipal services are provided sustainably, economically, efficiently and equitably to all communities.

MFMA, Municipal Budget Reporting Regulation, Municipal Property Rates Act and MFMA Circular's in particular 85 and 86 were used to compile the 2017/18 MTREF budget. The planning process of the budget considered all factors, which have implications on the annual budget and the establishment of the municipality.

The following budget principles but not limited to were used to compile of the 2017/18 MTREF:

- The 2016/17 Adjustments Budget, current financial performance, municipal priorities and future plans;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlogs;
- New valuation roll for property rates,
- Tariff increases which should be affordable and should generally not exceed inflation as measured by the consumer price inflation (CPI), except where there are price increases in the inputs of services that are beyond the control of the municipality. In addition, tariffs should be cost reflective;
- Allocation of grants and equitable share as per DoRA

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

| Description | 2016/17 Adjustment Budget | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|-----------------------|---------------------------|---|------------------------|------------------------|
| | | Budget Year 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| R thousand | | | | |
| Operating Revenue | 259 181 | 344 636 | 364 665 | 381 044 |
| Operating Expenditure | 237 864 | 265 721 | 296 260 | 317 684 |
| Surplus | 21 317 | 78 914 | 68 405 | 63 359 |
| Capital transfer | 108 737 | 106 615 | 95 345 | 106 478 |
| | 130 054 | 185 530 | 163 750 | 169 837 |

Total operating revenue has grown by 33% per cent in 2017/18 when compared to the 2016/17 adjustments budget. For the two outer years, operational revenue anticipated to grow by 6% and 4% respectively.

Total operating expenditure for the 2017/18 financial year has been appropriated to increase by 12% in 2017/18 when compared to the 2016/17 adjustment budget and continue to increase in the outer years by 11% and 7% respectively.

Capital transfer for 2017/18 has decreased by 2% mainly due to the fact that in 2016/17 the municipality received roll over grant, in 2018/19 the transfer decreased by 11% due to the decrease of INEP allocation and non-transfer of MDTG in the outer years and in 2019/20 the transfer increased by 12%.

Operating revenue framework

The revenue management is fundamental to the financial sustainability of the municipality. The expenditure is required to be limited to the available resources; hence, there is a need to balance expenditures against realistically anticipated revenues.

The municipality's revenue plans is built on the following items:

- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure continuous increase of collection rate;
- Achievement of cost recovery of specific user charges especially in relation to trading services;

Tariffs

Property Rates

Property rates cover the cost of the provision of general services. The determination of the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The Lim 345 is a newly established municipality and has developed a new valuation roll which will become effective from 1 July 2017

Services charges and other

- The proposed tariff increase is projected to be 6% in 2017/18, 5.7% in 2018/19 and 5.6% in 2019/20

(The tariffs are attached as part of the budget document)

Summary of the revenue by source

| Description | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|--|---|------------------------|------------------------|
| | Budget Year 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| R thousands | | | |
| Financial Performance | | | |
| Property rates | 11 000 | 11 800 | 12 500 |
| Service charges | 4 814 | 5 005 | 5 478 |
| Investment revenue | 2 200 | 2 400 | 2 600 |
| Transfers recognised - operational | 309 752 | 327 473 | 341 515 |
| Other own revenue | 16 870 | 17 986 | 18 951 |
| Total Revenue (excluding capital transfers and contributions) | 344 636 | 364 665 | 381 044 |

The above table depicts the revenue mix, the transfer recognized – operational contribute 90% of the total operating revenue. This implies that the municipality is grant dependent, however, the municipality have plans in place to develop revenue enhancement strategy which will assist to expand revenue streams and maximize own revenue.

Grant and equitable share

| Description | 2017/18 | 2018/19 | 2019/20 |
|---|---------|---------|---------|
| Equitable share | 304 695 | 325 128 | 339 170 |
| Financial management Grant | 2 345 | 2 345 | 2 345 |
| EPWP | 1 000 | | |
| Municipal Demarcation Transitional Grant | 6 847 | | |
| Municipal Infrastructure Grant | 83 480 | 88 345 | 93 478 |
| Integrated National Electrification Programme | 18 000 | 7 000 | 13 000 |

The table above illustrate the grants and equitable share allocated to LIM 345 Local Municipality and the allocations are as per Division of Revenue Act.

Expenditure framework

Operating Expenditure

| Description | | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|---------------------------------|---------------------------|---|------------------------|------------------------|
| R thousands | Adjustment budget 2016/17 | Budget Year 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| Employee costs | 89 591 | 113 805 | 120 292 | 127 029 |
| Remuneration of councillors | 29 049 | 30 098 | 31 784 | 33 564 |
| Depreciation & asset impairment | 35 000 | 38 000 | 42 000 | 45 000 |
| Finance charges | 396 | 400 | 410 | 420 |
| Materials and bulk purchases | 4 731 | 5 043 | 8 376 | 12 000 |
| Transfers and grants | 4 000 | 3 000 | 3 171 | 3 349 |
| Other expenditure | 75 096 | 75 374 | 90 227 | 96 324 |
| Total Expenditure | 237 864 | 265 721 | 296 260 | 317 684 |

The increase of employee related costs has taken into account the approved organizational structure, number of post to be filled and SALGBC agreement.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality budget.

Capital Expenditure

| Vote Description | | 2017/18 Medium Term Revenue & Expenditure Framework | | |
|--------------------------------|---------------------------|---|------------------------|------------------------|
| R thousand | Adjustment budget 2016/17 | Budget Year 2017/18 | Budget Year +1 2018/19 | Budget Year +2 2019/20 |
| Funded by: | | | | |
| National Government | 108 737 | 106 615 | 95 345 | 106 478 |
| Transfers recognised - capital | 108 737 | 106 615 | 95 345 | 106 478 |
| Internally generated funds | 14 233 | 25 000 | 20 000 | 18 000 |
| Total Capital Funding | 122 970 | 131 615 | 115 345 | 124 478 |

The total capital budget in 2017/18 is R131 million, in 2018/19 is R115 million and in 2019/20 is R124 million. The internally generated funds were used to supplement the capital budget for the implementation of capital projects and procurement of assets.

The internally generated funds in 2017/18 is anticipated to be higher than the two outer year on the basis that Lim345 is still a newly established municipality in 2017/18 the municipality is envisaged to procure couple of assets in order to render the service effectively.

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

OTHER BUDGET RELATED MATTERS

Revenue forgone

In terms of the Municipal property rates act municipalities may grant a specific category of owners of property a rebate on or a reduction in the rates payable in respect of their property.

Any exemption, rebate or reduction of levies payable is referred to as revenue foregone.

The revenue forgone relate to the following:

- Indigent Consumers
- Rebates to the owners of the properties

mSCOA implementation

The implementation of mSCOA is an initiative of National Treasury to ensure transparency and expenditure control in each sphere of Government by introducing generally recognized accounting practice, uniform expenditure classifications and uniform treasury norms and standards.

Given the limited capacity the municipality is behind the schedule with the implementation of the mSCOA project which poses a non-compliance risk. In order to manage the risk the municipality is required to increase the capacity and the implementation require efforts by all departments. In the interim the municipality has solicited the assistance of system vendor to assist the process.

Challenges faced by the newly established municipality on financial management

- Late implementation of the network and financial systems
- Lack of human capacity within BTO to render the unit effectively
- Late submission of financial information (current billing and direct income) by Makhado and Thulamela municipality
- Some of the transferred assets by donor municipalities are not in good condition which will warrant the municipality to allocate resources for repairs and maintenance and procurement of new assets

Budget related risks

The following are identified as budget related risks which need to be managed adequately in order to realize the projected outcomes:

- Ineffective service delivery due to lack of human capacity and tools of trade
- Poor forward planning which may lead the municipality not meeting targets
- Poor revenue collection which may threaten the long term financial sustainability/going concern
- Non-compliance to budget related prescripts
- Unrest in Vuwani which is likely to affect the revenue collection, ability to meet service delivery targets and other provision of basic services

5. ANNUAL BUDGET TABLES

The budget tables are attached on annexure A (A1 schedule)

6. OVERVIEW OF THE BUDGET PROCESS

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule. However, it is acknowledged that there was a slight deviation from the key dates set out in the Budget Time Schedule tabled in Council in August 2016 due to unforeseen circumstances.

IDP and Service Delivery and Budget Implementation Plan

The Municipality IDP is the principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

The IDP has been taken into a business and financial planning process during compilation of the budget

The municipality embarked on IDP rep forums and public participations where inputs from community were consolidated and considered.

7. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE IDP

A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents

The IDP developed by the municipality correlate with national, provincial and district priorities. The aim is to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living with Lim345 Municipality (The IDP is attached)

8. OVERVIEW OF BUDGET RELATED-POLICIES

The Municipality budgeting process is guided and governed by relevant legislation, frameworks, strategies by-laws and related policies.

The following budget related policies and by-laws are attached

- Asset management policy

- Credit control and debt collection policy
- Bank and cash policy
- Budget policy
- Write-off policy
- Indigent policy
- Long term financial planning policy
- Supply chain management policy
- Inventory policy
- Sundry receivable policy
- Trade and sundry payable policy
- Provisions policy
- Grants policy
- Books of accounts policy
- Tariff policy and by law
- Veriment policy
- Property rates policy
- Subsistence and travel policy
- Investment and cash management policy
- Property rates notice
- Property rates by law

These policies are attached in the Budget document as annexure b

9. OVERVIEW OF BUDGET ASSUMPTIONS

The municipality took into consideration the current performance, financial impact, challenges faced by the municipality, demographic, economic, inflation estimate, service delivery trends when preparing the budget. The budget prioritized service delivery programmes.

10. OVERVIEW OF BUDGET FUNDING

The projected year-end balance for cash and cash equivalents for 30 June 2017, proposed tariffs and collection rate has been taken into account.

Only gazetted grants and equitable share from national government were factored into the funding basket. This is to ensure that the budget is based on realistically anticipated revenue.

11. EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Conditional grants received by the municipality are allocated to capital and operational programmes implemented by the municipality in accordance with the grant conditions.

12. ALLOCATIONS OF GRANTS MADE BY THE MUNICIPALITY

The municipality does not have transfers in the form grants to other institutions

13. COUNCILLORS AND BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS

Employment costs of senior management and officials are budgeted for in line with CPI, SALGBC agreements and councillors are budgeted in accordance with upper limits of Public Office Bearers promulgated by the Minister of CoGTA.

14. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

In terms of the Municipality Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework.

15. CAPITAL PROJECT DETAILS

| Program/Project description | 2017/18 Medium Term Revenue & Budget Year 2017/18 |
|------------------------------------|---|
| | |
| sibudi to vyeboom | – |
| XIKUNDU RING ROAD | 15 000 |
| Malamulele B internal streets | 49 765 |
| Malamulele D internal streets | 612 |
| Xithlelani Ring Road | 17 102 |
| Xigalo Landfill site | 1 000 |
| DCO-Hospital | 1 000 |
| PMU | 1 000 |
| Electrification- mav andla | 13 175 |
| Electrification -makumeke-mav ambe | 4 825 |

The above table illustrates the 2017/18 capital projects to be implemented through MIG, electrification projects through INEP. The landfill site and DCO hospital road is through own revenue.

16. IMPLICATIONS

Constitutional and legal factors

To ensure compliance with various section of the MFMA and Municipal budgeting reporting regulation

Communication

The adjustment budget must be submitted to the following stakeholders within ten working days after the Mayor has tabled an adjustment budget in the council in both electronic and hard copy:

- The Mayor of the Municipality
- The National Treasury
- The relevant Provincial Treasury
- Other Stakeholders

17. CONCLUSION

The municipality should manage the spending within the existing budget allocation in such a prudent way that service delivery is implemented in the most cost effective manner.

18. QUALITY CERTIFICATE

The signed quality certificate is attached. (Annexure C)